

Strategic Sourcing:

Benefits Realized, Lessons Learned



GOVERNMENT
SOURCING
SOLUTIONS

MAKING THE HARDEST JOB IN
GOVERNMENT A LITTLE EASIER

Introduction

- Former Deputy Secretary of Pennsylvania Department of General Services
- Responsibilities:
 - Statewide procurement (\$4B in annual spend)
 - Fleet management (17,000 vehicles)
 - Inventory management (17 warehouses)
 - Print (27 print shops)
- Accomplishments:
 - \$360 million in annual procurement savings
 - Quadrupling of state's MWBE participation rate
 - Warehouse consolidation, closing 14 warehouses
 - Eliminated 1,000 vehicles from fleet

Agenda

- Strategic Sourcing
 - What Is It? Why Do It?
 - Total Cost of Ownership
 - Best Value
 - Supplier Relationship Management
- Strategic Sourcing in Public Sector
 - Socioeconomic Considerations
 - Statutory Roadblocks
 - Political Outlets
- Cooperative Purchasing
- Partnering with Local Governments
- Organizational Optimization

Strategic Sourcing

Why?

NY courts order 367 layoffs in budget cuts

Nixon threatens cuts, layoffs if legislative conference budget plan passes

States Pass Budget Pain to Cities

State Budget Cuts Could Mean Mass Teacher Layoffs

Governor's budget includes possible future Medicaid cuts for children, report says

Hudson Head Start program closing in 2013 because of budget cuts

School board budget cuts 142 district jobs

Teaching positions to be cut, along with some administrative jobs

Two Divergent Public Sector Procurement Philosophies

- “Share the Wealth”
 - Goal – Give all qualified firms access to public procurement
 - Tactic - Allow autonomy by agencies to disaggregate volume and ensure that procurement pie is split among a multitude of suppliers.
- “Strategic Sourcing”
 - Goal – Generate best value for agencies and taxpayers – decrease cost, enhance quality, increase MWBE participation.
 - Tactic – Aggregate demand across all agencies and consolidate number of suppliers to maximize leverage.

Share the Wealth vs. Strategic Sourcing



DGS establishes contract for widgets with 30 suppliers

DGS establishes contract for widgets with single supplier, Widget Inc.



Bethlehem State Police Barracks selects Supplier A, neighborhood business

Bethlehem State Police Barracks places order with Widget Inc.



Hickory Run State Park selects Supplier B, longtime supplier

Hickory Run State Park places order with Widget Inc.



Camp Hill Prison selects Supplier C, compares all 30 suppliers to get lowest price on widgets

Camp Hill Prison places order with Widget Inc.



- Pricing based on volume of a single location
- Extraordinarily time consuming
- No supplier partnerships
- No ability to drive central initiatives (e.g., green)
- Possibility of questionable purchasing motivations

- Pricing based on entire State – lower, consistent
- Much less labor intensive for users
- Greater transparency
- Can drive central initiatives

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Lax Contract Management Created “Seller’s Paradise”

“Pennsylvania has the best copier contract in the country.”

Band	Copies Per Month	Percent of Fleet	Actual Use
7	75k+	61%	1%
6	60-75k	4%	1%
5	45-60k	8%	2%
4	30-45k	2%	6%
3	15-30k	9%	24%
2	5-15k	12%	42%
1	1-5k	5%	24%
TOTAL		100%	100%

Seven Step Sourcing Process

Profile Internally & Externally

Build TCO Model

Collect Supplier Information

Develop Sourcing Strategy

Solicit & Evaluate Bids

Negotiate & Select Suppliers

Implement Contracts

- Select DGS lead and agency end users to commodity team
- Collect and analyze detailed data from agencies and suppliers
- Review as-is ordering process
- Identify cost drivers
- Develop specifications and market basket of items

- Research capabilities of supply base
- Determine supplier diversity opportunity
- Analyze risks and opportunities in the industry
- Develop evaluation criteria and weighting
- Select sourcing and lotting strategy
- Establish streamlined to-be ordering process
- Select sourcing strategy and review with executives

- Develop and publish bid document (RFP, RFQ, IFB)
- Evaluate responses
- Negotiate Best and Final Offers (BAFOs)
- Finalize contract terms and conditions and sign
- Train end users on new ordering processes

- Data Gathering
- Total Cost of Ownership

- Requests for Information
- Requests for Proposal
- Negotiations

Request for Information

- Survey supplier community to understand their capabilities
- Informs sourcing strategy
- Example – food distribution
- Can Pennsylvania consolidate suppliers down to one?
 - Geography: Can you (supplier) deliver next day to every prison, hospital, veteran's hospital in SE Pennsylvania? NE? NW? Central?
 - Do you stock or can you source perishable food goods? Non-perishable? Produce? Dairy? Baked goods?
 - Only if there is a robust supply base that answers yes to all of the above could we go to single supplier strategy.

Total Cost of Ownership

- Traditional way of evaluating cost



STANDARD VEHICLE PRICE

\$24,905.00

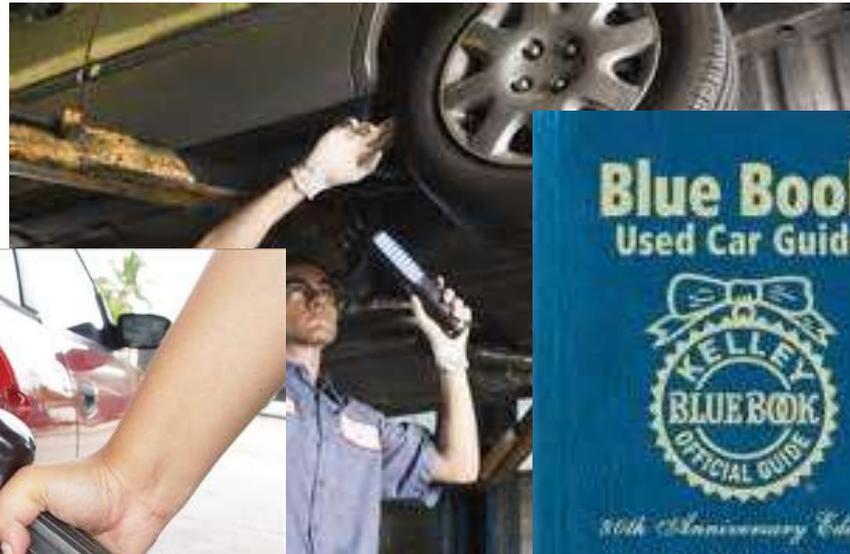
- Only factor evaluated is purchasing price

Total Cost of Ownership

- TCO model of evaluating cost



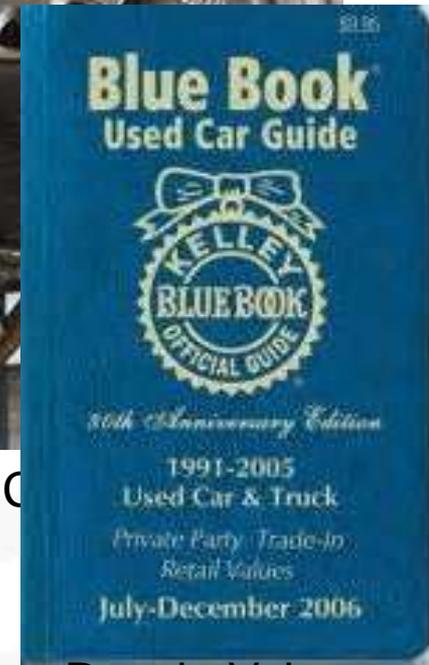
Acquisition



Maintenance Cost



Fueling Cost



Resale Value

- All cost factors during lifecycle of product/service

are evaluated

Best Value

- Traditionally, procurements, esp. for goods were done through low-bid, RFQ/IFB process
 - Lowest responsive, responsible bidder must be selected
 - Factors beyond cost not considered
 - Ability to meet government's needs not fully considered
 - No ability to negotiate

200 MARTIN			
MARTIN TORRES, A. Princesa Ardis, 3 (S. ANDRES)	922 549 612	MARTIN YANES, E. Casas de Abajo, 13 (VALLE GUERRA)	922 543 551
» TORRES, A. I. Camino La Hormera (Gracia), 8 (S. CRISTOBAL LAGUNA)	922 253 967	» YANES, F. Zebenday, 14	922 213 414
» TORRES, A. N. Transversal Decano Consular, s/n (ANAZA)	922 685 293	» YANES, J. Benavides, 15	922 273 073
» TORRES, A. R. - Simon Balvier, 10	922 230 237	» YANES, J. M. Cno. San Bartolome Ganeto, 3 (TACO)	922 822 132
» TORRES, B. A. - Sta M. Soledad, 10	922 656 721	» YANES, L. R. - Cirro, Vista Coira, 23 (TEJINA)	922 545 180
» TORRES, C. - A Delgado, 13 (S. ANDRES)	922 591 458	» YANES, M. - R. Nalon, s/n	922 218 737
» TORRES, C. Urb Principe Huyran/Chumberas, s/n (S. CRISTOBAL LAGUNA)	922 821 740	» YANEZ, A. - P. Bermejo, 21 (TEJINA)	922 544 392
» TORRES, C. E. - Alvarez de Llgo, 45	922 281 390	» YANEZ, F. - Feima, 17 (VALLE GUERRA)	922 544 075
» TORRES, D. - Fdo P. Riera, 36	922 282 390	» ZAMORANO, L. E. Dr Manuel Parejo Morales, 1	922 272 941
» TORRES, E. - Gendaria (La Galega), 50	922 617 372	» ZAMORANO, L. E. Dr Manuel Parejo Morales, 1	922 274 515
» TORRES, E. R. - Cho, Tabares, 26 (GUAMASA)	922 637 097	» ZARZA, J. M. Virgen de La Paz, 29 (LA CUESTA)	922 662 105
» TORRES, F. O. Benito, 2 (S. CRISTOBAL LAGUNA)	922 256 505	» ZARZA, M. Esperanto, 7 (S. CRISTOBAL LAGUNA)	922 630 447
» TORRES, F. O. Benito, 4 (S. CRISTOBAL LAGUNA)	922 251 043	» ZARZA, M. P. Montaña Tahitche, 64 (LA CUESTA)	922 662 338
» TORRES, L. - Ctra Rosario, s/n	922 641 154	» ZARZA, P. E. Montaña Tahitche, 32 (LA CUESTA)	922 651 234
» TORRES, J. - Nipercal Llano del Moro, 30	922 620 575	MARTIN-CARBAJAL GONZALEZ, A. R. Marchal, 67	922 282 495
» TORRES, J. A. Pueblo Hitojosa Calle E, 6 (LA CUESTA)	922 633 560	MARTIN-DELGADO PEREIRA, M. DE LAS M. Churrinca 1	922 221 153
» TORRES, J. M. - C. y Tamayo, 57 (LA CUESTA)	922 660 813	MARTINEZ ABASCAI, S. San Pancracio (Gracia), 5 (S. CRISTOBAL LAGUNA)	922 254 493
» TORRES, L. - Camino del Hierro, 69	922 204 954	» ABRIL, A. M. - Guanabana, 34	922 222 832
» TORRES, M. - Eola, s/n (S. ANDRES)	922 549 575	» ABRIL, M. - Eledo Roca S, 1	922 655 871
» TORRES, M. - Ramba General Franco, 149	922 247 037	» ACEVEDO, I. I. - Benitoire, 14	922 212 314
» TORRES, M. Veintiseis de Diciembre, 90 (LA CUESTA)	922 649 323	» ACEVEDO, M. C. H. Sanchez, 44 (S. CRISTOBAL LAGUNA)	922 633 906
» TORRES, M. A. - Veremundo Pereira, 20	922 274 293	» ACEVEDO, M. DEL P. Antonio Dominguez Alfonso, 22	922 243 680
» TORRES, M. B. - Galeja, 1 (S. ANDRES)	922 591 425	» ACULAR, S. M. Ancheta, 26 (S. CRISTOBAL LAGUNA)	922 260 603
» TORRES, M. DE LA T. Florida Primero, 6 (S. ANDRES)	922 549 438	» ALAMINO, F. - Ramon P. Ayala, 13	922 226 719
» TORRES, M. R. - Servicio, 9 (S. ANDRES)	922 591 393	» ALAMINO, L. - Hero, 17	922 222 480
» TORRES, R. - Ctra Rosario, 81.1	922 650 442	» ALBERTO, J. C. Ajozanza Jardina, 70 (S. CRISTOBAL LAGUNA)	922 262 452
» TRAVESSO, J. - Infante, 38	922 278 168	» ALBERTO, J. R. - R. Jimenez, 5 (TACO)	922 613 539
» TRUJILLO, A. - Helodoro Rodriguez Lopez, 25	922 225 305	» ALBERTO, R. - E. Lopez, 1	922 651 941
» TRUJILLO, A. - Las Brisas (Cuevas Blancas), 27	922 537 102	» ALBERTO, V. R. El Sazcal (Jaca España), 54 (LA CUESTA)	922 653 313
» TRUJILLO, C. - Punta Teno (Cuevas Blancas), 7	922 625 898	» ALBERTOS, M. DEL C. Chumberas, s/n (S. CRISTOBAL LAGUNA)	922 821 198
» TRUJILLO, J. E. - Fco Munez Viera, 23	922 207 614	» ALEGRIA, S. - Turina, 12	922 224 564
» TRUJILLO, J. L. - Gamiet, s/n	922 221 483	» ALEJANDRO, A. M. - R. y Cajal, 51	922 249 402
» TRUJILLO, J. M. - P. Anchisa, 19	922 211 786	» ALEMAN, C. F. - Av. El Cardenal, s/n (TACO)	922 618 938
» TRUJILLO, J. S. Carranera General del Sur, Km 10:30	922 618 141	» ALAYA, A. El Molino (E. Portezuelo), 26 (S. CRISTOBAL LAGUNA)	922 638 331
» TRUJILLO, M. A. - Aguiere, 9 (TACO)	922 613 205	» ALONSO, I. A. - Castro, 38	922 286 980
» TRUJILLO, M. A. - Fomperthus, 21	922 200 256	» ALONSO, M. Av. San Miguel (Chimisa), s/n (TACO)	922 613 847
» TRUJILLO, M. D. Arzobispo Elias Yanes, 60 (S. CRISTOBAL LAGUNA)	922 630 495	» ALONSO, W. San Fco de Paula (Los Baldios), s/n	
» TRUJILLO, M. N. Decano J Ramos, 18 (ANAZA)	922 680 261		
» TRUJILLO, V. E. - Bacallado, s/n	922 646 762		
» TUJYA, E. - Mendez Muñoz, 102	922 274 830		
» UMPIERREZ, M. I. - Bencheque, 7-5	922 649 392		
» URBINA, D. - Anselmo J Benitez, 8	922 290 822		
» URCOITI, C. - Av. Benito Perez Armas, 17	922 225 851		
» VALERO, L. - Jose Batan, 30 (VALLESECO)	922 597 132		
» VALENTE, A.			

Best Value

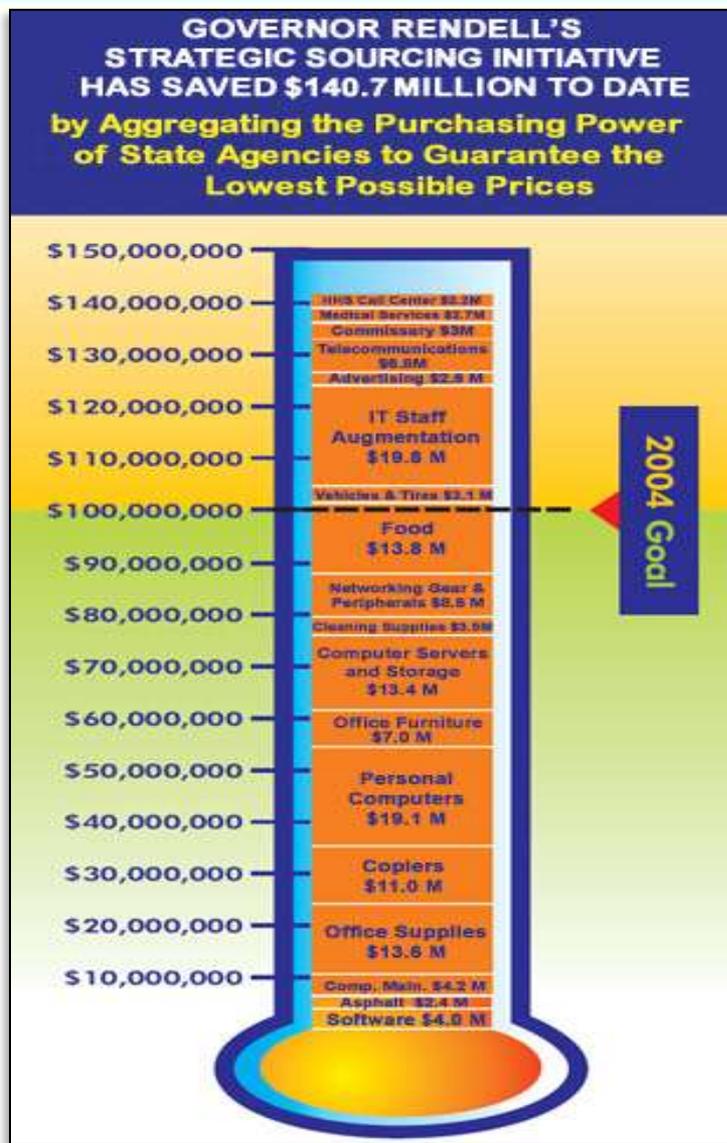
- State used RFPs for virtually all high value procurements for services and goods
- Evaluating three factors to make awards
 - Cost
 - Technical qualifications
 - MWBE
- Best and Final Offer negotiations
- Did not always award to lowest bidder, but always awarded to best value and drove significant savings

Supplier Relationship Management

- Words matter. Vendor? Supplier? Partner?
- Why treat suppliers like partners:
 - Expertise
 - Bandwidth
 - Mutual benefits/interests
- When does partnership begin?
 - Pre-solicitation? Q&A? Negotiations? Implementation? QBRs? Renewal? Re-procurement?
- Leverage relationship for value added services.
- Drive quarter over quarter, year over year savings, by driving out cost for both parties.
- Give suppliers big picture about organization (e.g., University of CO)



Results: \$140.7M in Annual Savings Through 2005, \$360M to Date. Quadrupling of Small Business, MWBE Participation Rate



Rendell touts success in diversity effort

The number of minority- and women-owned businesses awarded state contracts has quadrupled in Pennsylvania since January 2003, according to Gov. Ed Rendell.

The Department of General Services entered into or renewed about \$510 million in contracts for the fiscal year ending June 30, 2006. Of that, \$42.3 million was awarded to minority- and women-owned business enterprise, or MWBE, contractors. Less than 2 percent of the state's procurement dollars were awarded to such enterprises in January 2003, compared to 8.3 percent now, Rendell said Wednesday.

"We've come a long way, but there is still room for improvement," the governor said. "When I took office, it was clear minority- and women-owned businesses were being shut out of the procurement process, so we established a system that levels the playing field for these firms and allows them to compete among companies that are often larger and have a greater pool of resources."

Rendell issued an executive order in April 2004, requiring all 42 agencies under his jurisdiction to maximize supplier diversity in the procurement of goods, services and construction, he said. DGS was charged with expanding the pool of qualified companies capable of providing dependable services and quality products, he said. DGS has since streamlined the certification process and increased the pool of certified MWBE companies by 30 percent to more than 1,700.

Sincerest Form of Flattery



Media Coverage

Can it be? Is state government doing something right?

State's Strategy Promotes Savings, MWBE Participation

\$100 million savings seen in state purchasing

State to trim millions

Strategy goes beyond cutting obvious waste

State Model For Savings

13 Contracts Save \$118.7 Million

Gov. expects to cut warehouse costs \$4M a year

State contract to trim cost of office supplies

Buying in bulk yields results, state says

Annual savings projected to hit \$138.5 million

Rendell: Dell contract to save state \$19 million on computers

New buying methods saving state millions

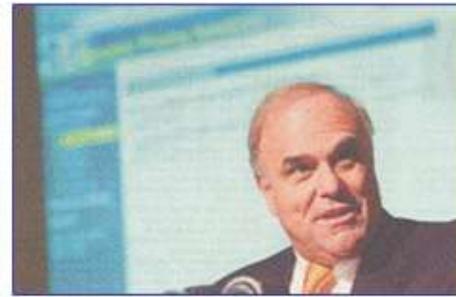
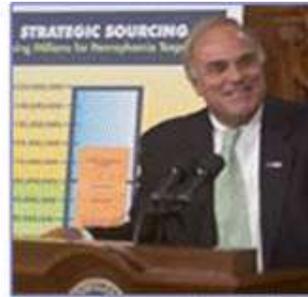
'Strategic sourcing'

State initiative aims to trim cost of supplies

Furniture contract to save \$7 million.

Executive Support in Pennsylvania

- Single most critical success factor
- Leverage time, support, political capital of Governor
- 6 press conferences with Governor
- Placement of Strategic Sourcing on first page of State website.



Executive Support in New York

- "Governor Cuomo Announces Steps to Cut Waste and Improve Government Efficiency Expected to Save \$600 Million Over Five Years"
 - Governor Cuomo has initiated sweeping changes to the state government procurement process that focus on implementing best practices and identifying opportunities for savings. **The new procurement process, called strategic sourcing, will leverage the state's buying power** and balance the needs of achieving savings with the administration's policy goals of encouraging small businesses and MWBEs.



- "Cuomo Takes Budget Show on the Road"
 - **"We are doing strategic sourcing where we are saving money on procurements** and also the Business Service Center where we are going to be taking in the back office operations," said OGS Commissioner RoAnn Destito.

Impact on Local Government

Unintended consequence of strategic sourcing

- Local suppliers angry at strategic sourcing, but didn't appear to have much spend State spend.

Figure 1: Location of the Current Copiers Vendors

Vendor Name	FY2002-03 Spend	Location
XEROX CORPORATION	\$7,220,187	Out of State
IKON OFFICE SOLUTIONS	\$1,456,347	Out of State
IMAGISTICS	\$980,703	Out of State
OCE USA INC	\$949,984	Out of State
MINOLTA CORP	\$940,974	Out of State
DANKA OFFICE IMAGING	\$746,247	Out of State
LANIER WORLDWIDE	\$696,219	Out of State
SHARP ELECTRONIC CORPORATION	\$402,235	Out of State
ENGLE BUSINESS EQUIPMENT INC	\$336,886	ELIZABETHTOWN
RICOH CORPORATION	\$5,754	Out of State
KONICA BUSINESS MACHINES	\$4,244	Out of State
SAVIN CORPORATION	\$3,740	Out of State
COLONY PRODUCTS, INC	\$1,338	LANCASTER

- Local suppliers had significant spend with local governments using State contract.

In Response, Created COSTARS



- DGS creates COSTARS contract, whenever it strategically sources a commodity.
- COSTARS contracts are multiple award, similar to GSA Schedules
- Allows local governments to use local suppliers or to use State's strategically sourced contracts
- Self funded by supplier registration fee.
- 953 suppliers; 7,400 members; \$575M in spend

Public Sector Challenges

Strategic Sourcing Very Different in Public than Private Sector

- Socioeconomic objectives
- State statutes
- Historical culture of agency autonomy
- Political outlets for suppliers
- Government procurement operations
 - Understaffed
 - Underfunded
 - Under-salaried
 - Under-trained
 - Under-respected

Cooperative Purchasing

Cooperative Purchasing

- Most states, cities, counties, school districts have the ability to “piggyback” on contracts established by other jurisdictions.
- Piggybacking entity receives same or better pricing as original entity.
- Piggybacking entity can insert its own terms and conditions which take precedence.
- Cooperative purchasing is a widely accepted, procurement best practice, endorsed by American Bar Association (ABA), National Institute of Government Purchasing (NIGP), National Association of State Procurement Officials (NASPO).

Cooperative Purchasing and Strategic Sourcing

- Challenges in public sector procurement staffing make strategic sourcing difficult
- Minimal work to implement contracts through cooperative purchasing
- Identifying strategically sourced contracts to piggyback on (partially) solves staffing challenge to strategic sourcing
- Identify savings to build business case
- Case study: Pennsylvania COTS project

Cooperative Purchasing Best Practices

- Piggyback only on competitively procured contracts
- Contract with best in class suppliers
- Encourage partnerships with local suppliers where possible
- Make cooperative purchasing tool available for widest array of contracts for goods and services
 - Support legislation providing cooperative options for procurement directors

Organizational Optimization

Need to Sustain Strategic Sourcing Savings

- Consultants rolling off project
- 15 of 20 buyers busy managing strategically sourced contracts.
- Surveyed agencies, learned that each ran dozens of procurements and had significant procurement staff
- 12 month project to create procurement shared services center
- Multiple agency contracts migrated to DGS, along with procurement staff
- Single agency contracts where DGS could add value migrated also

Shared Services Center Solved Commodity Expertise Challenge Too

- Each buyer had to manage a large number of unrelated commodities.
- Example: One buyer had to manage the following commodities:
 - Body Armor
 - Telecommunication Equipment
 - Auction Services
 - IT Staff Augmentation
 - Software
 - Legal Research
- With such a wide portfolio, impossible to spend the time required to strategically source a commodity.
- Impossible to develop deep expertise in an individual commodity because buyers couldn't focus on one industry.

Benefits of Shared Services Center

- Reductions in cost of purchasing goods and services by:
 - Aggregating demand of all agencies to maximize volume, decrease cost.
 - Building commodity expertise where shared service center buyers are experts in the industry
 - Training buyers on online bidding, value engineering, cost-modeling, negotiating, etc.
- Eliminates redundancy of multiple individuals in multiple agencies contracting for the same goods and services.
- Consistent application of Administration procurement policy objectives
- Simplifies state procurement for suppliers with consistent RFPs, terms and conditions, protest processes.
- Frees up agency management time to focus on programmatic goals, not administrative functions.

Questions / Thank You

Feel free to call/email with any follow up questions:

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